



# **Local Government High Risk Program: "120/80"**

# My Name is Paul...



# Steak





# Steak & Ice Cream



# Six Factors of Cholestorol Risk

- |                            |                 |
|----------------------------|-----------------|
| 1. Overall Cholesterol     | 0-200 mg/dL     |
| 2. HDL Cholesterol         | $\geq 35$ mg/dL |
| 3. LDL Cholesterol         | $< 130$ mg/dL   |
| 4. Total Cholesterol Ratio | $< 4.0$         |
| 5. Triglyceride            | 35 – 160 mg/dL  |
| 6. Non-HDL Cholesterol     | 0 – 160 mg/dL   |

# Waiving HIPAA Today

Component	Your Value	Standard Range	Flag
<b>FASTING</b>	<b>YES</b>		
<b>CHOLESTEROL</b>	<b>221</b> mg/dL	<i>0 - 200 mg/dL</i>	<b>H</b>
Desirable adult value < 200 mg/dL			
<b>HDL CHOLESTEROL</b>	<b>35</b> mg/dL	<i>&gt;=35 mg/dL</i>	
<b>LDL CHOLESTEROL CALCULATION</b>	<b>Test not performed</b> mg/dL	<i>&lt;130 mg/dL</i>	
Unable to calculate LDL due to elevated triglyceride.			
<b>TOTAL CHOLESTEROL:HDL RATIO</b>	<b>6.3</b>	<i>&lt;4.0</i>	<b>H</b>
<b>TRIGLYCERIDE</b>	<b>450</b> mg/dL	<i>35 - 160 mg/dL</i>	<b>H</b>
<b>NON-HDL CHOLESTEROL</b>	<b>186</b> mg/dL	<i>0 - 160 mg/dL</i>	<b>H</b>
Desirable: <160 mg/dl			

## General Information

Collected: 05/25/2016 8:29 AM

Resulted: 05/25/2016 6:08 PM

# What I Think I Look Like Every Night...





# What I *Really* Look Like Every Night...



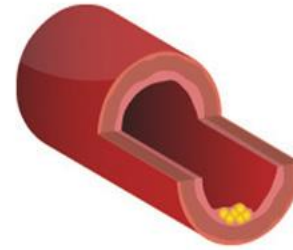




# Local Govt Health = Heart Health



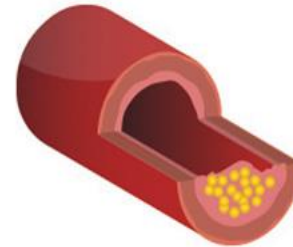
Normal cross  
section of artery



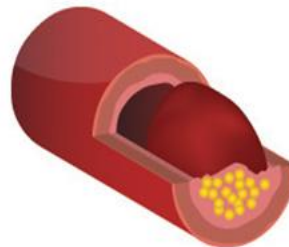
A plaque forms  
in the artery



Cholesterol  
Particles



Artery becomes  
narrowed



Narrowed artery becomes  
blocked by a blood clot

# What Happens If You Don't Diagnose?

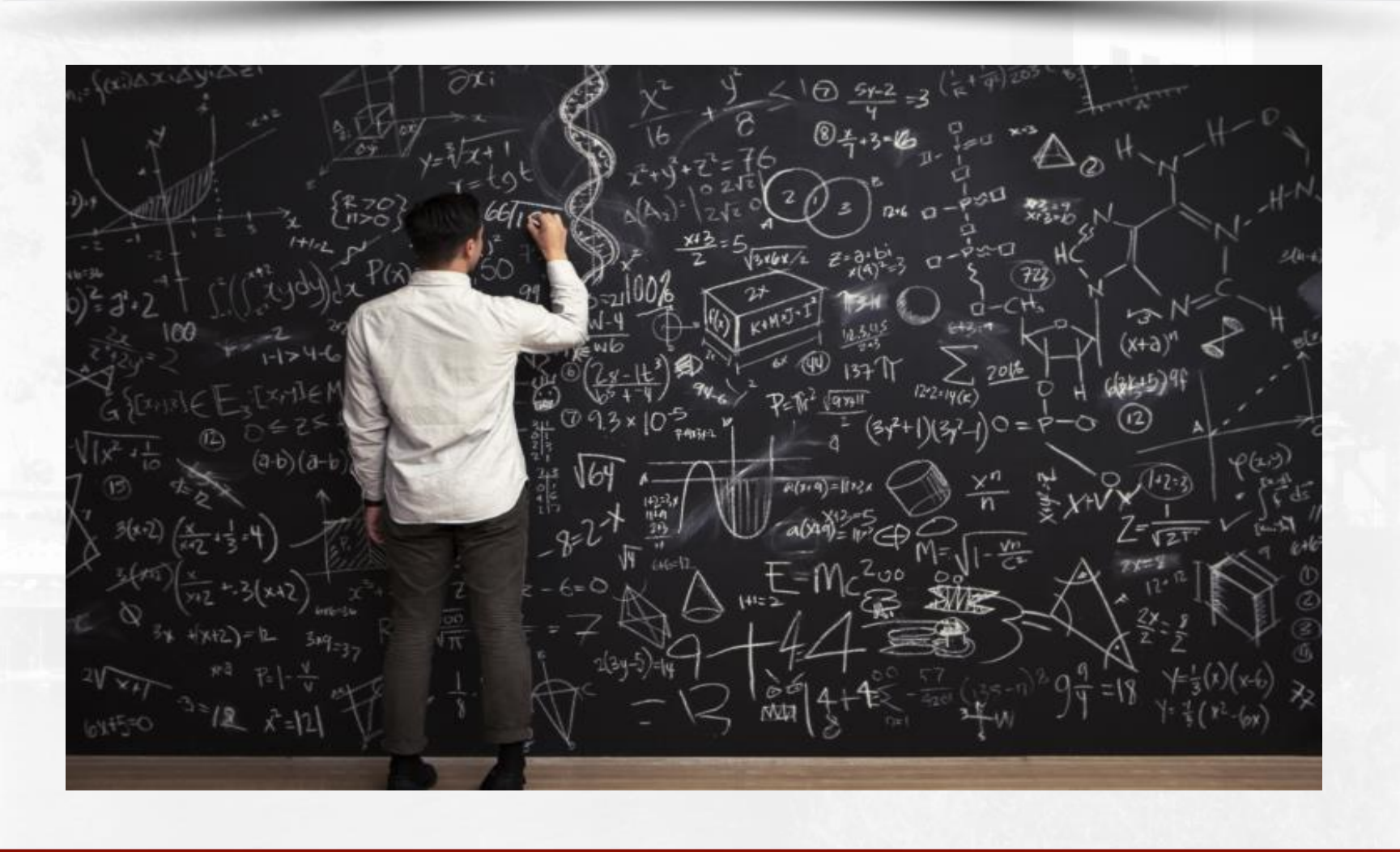


# How Did We Get This Program?

- City of Bell had a “heart attack”.
- AB 187 (Lara):  
Added to the **Government Code Section 8546.10**:
  - (a) The State Auditor may establish a high-risk local government agency audit program for the purpose of identifying, auditing, and issuing reports on any local government agency, including, but not limited to, any city, county, special district, or any publicly created entity, whether created by the California Constitution or otherwise, that the State Auditor identifies as being at high risk for the potential of waste, fraud, abuse, or mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness.



# Where Do We Start?



# Meetings With Stakeholders

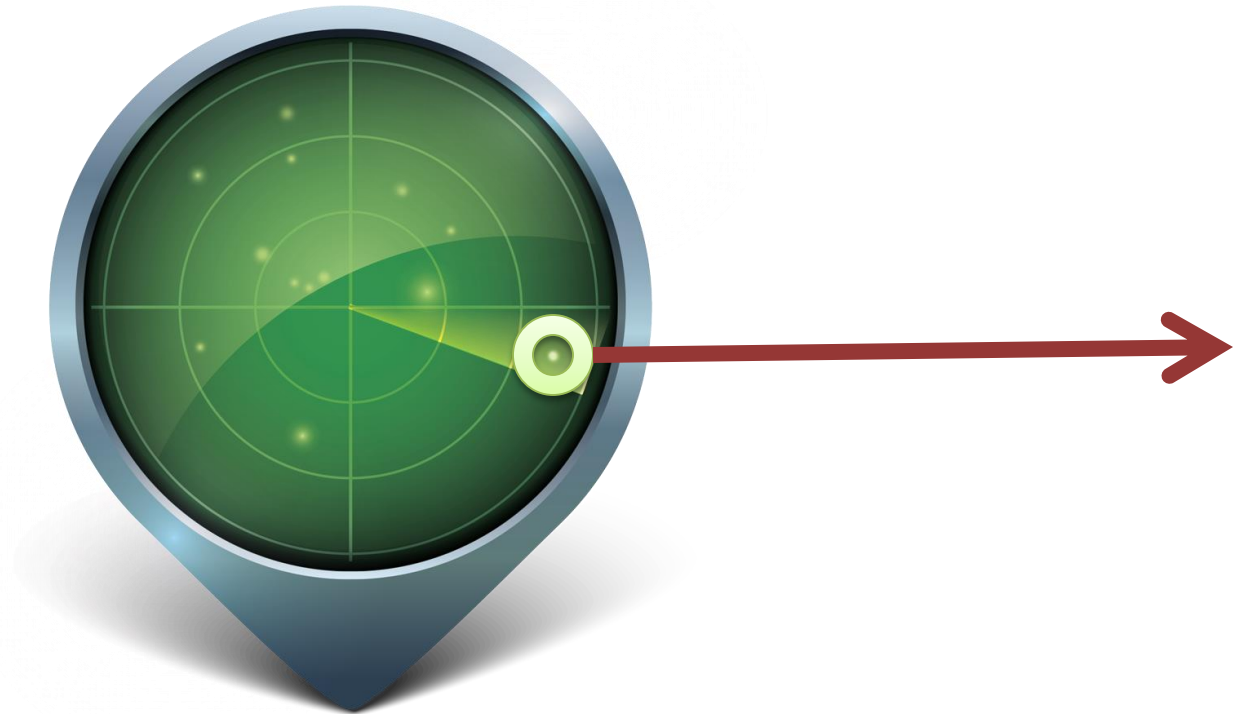


# Resulted In Regulations



*“Whew! That was close!  
We almost decided something!”*

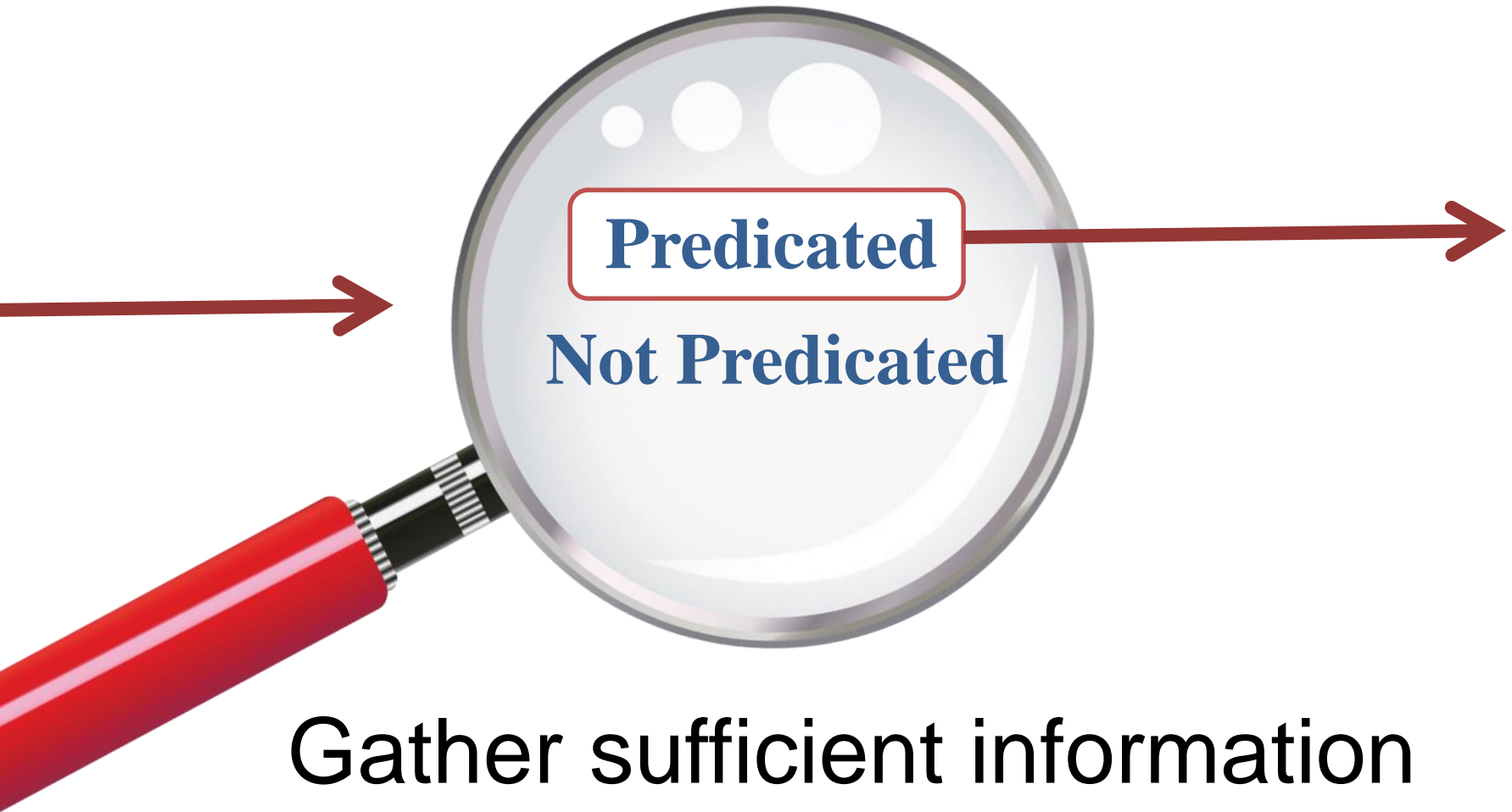
# ONGOING AWARENESS



- SOURCES —
1. Financial and performance data
  2. Media reports
  3. Whistleblowers

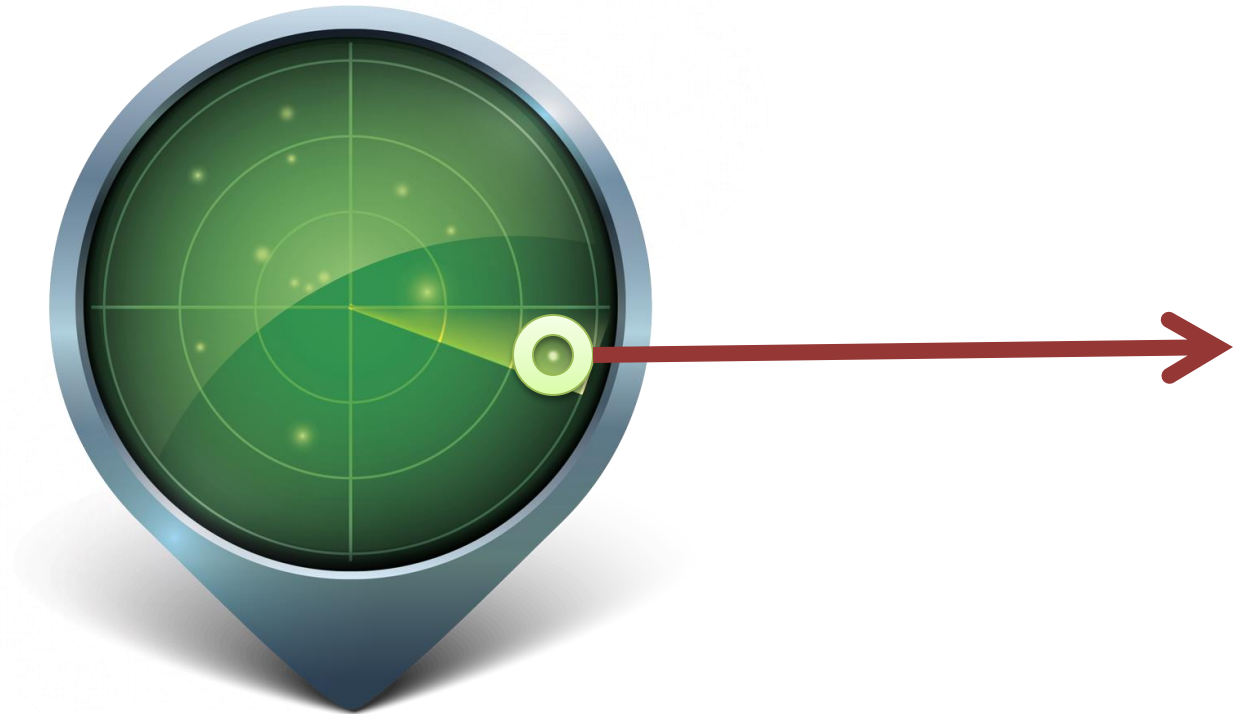


# PREDICATION



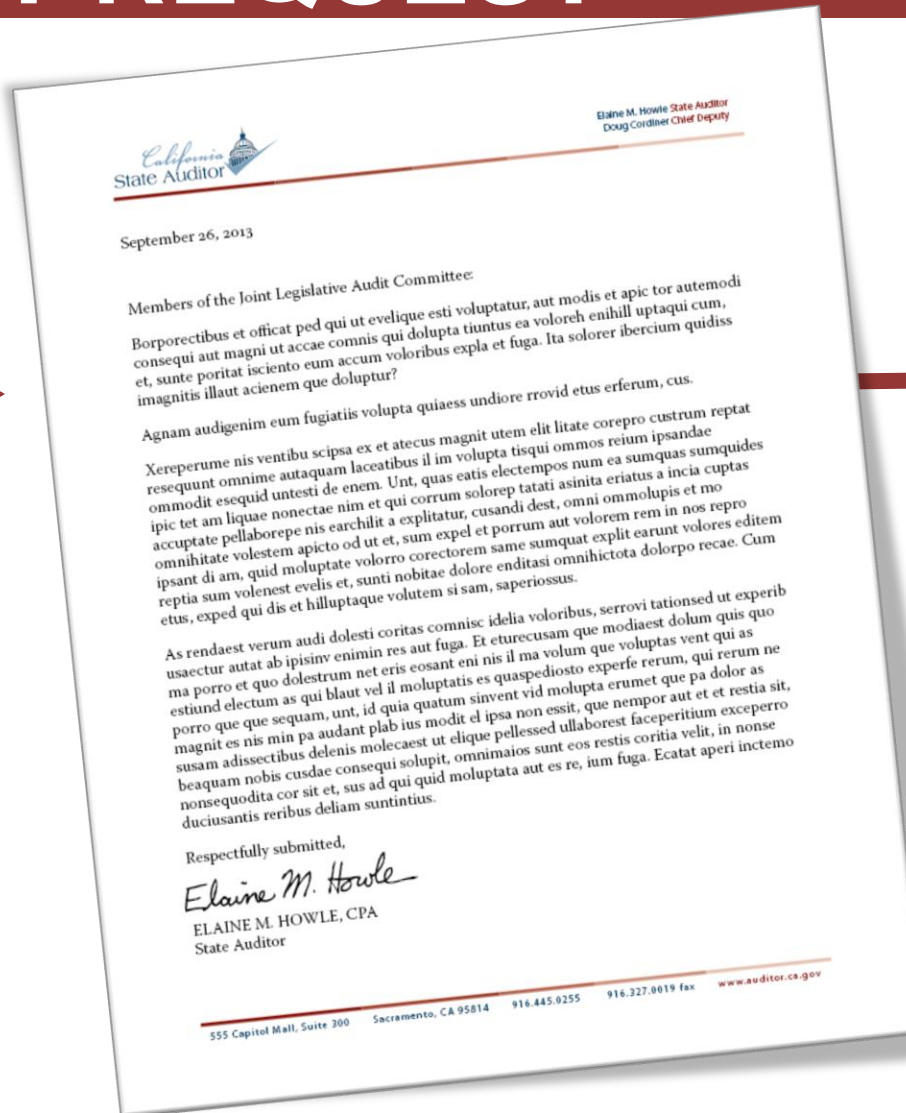
Gather sufficient information  
to justify an audit request

# ONGOING AWARENESS



- SOURCES —
1. Financial and performance data
  2. Media reports
  3. Whistleblowers

# AUDIT REQUEST



If approved,  
conduct the  
audit

# PUBLISH REPORT



**Regular  
reporting  
and  
follow-up**

The report adds the local entity to list or describes why it is not high risk



# Predictive Analytics



# Six Factors of Local Gov High Risk

1. Financial Condition
2. Ability to Maintain/Restore Financial Stability
3. Financial Reporting Follows Standards
4. Prior Audit Findings – No Corrective Action
5. Inadequate Monitoring of State/Local Funds
6. Operations/Mgt - Ineffective/Inefficient

# Governmental Funds

- Indicator Calculation:
  - Unassigned Fund Balance compared to Expenditures
- Risk Measurement:
  - Adequate Reserve to Cover Expenses

# Governmental Funds

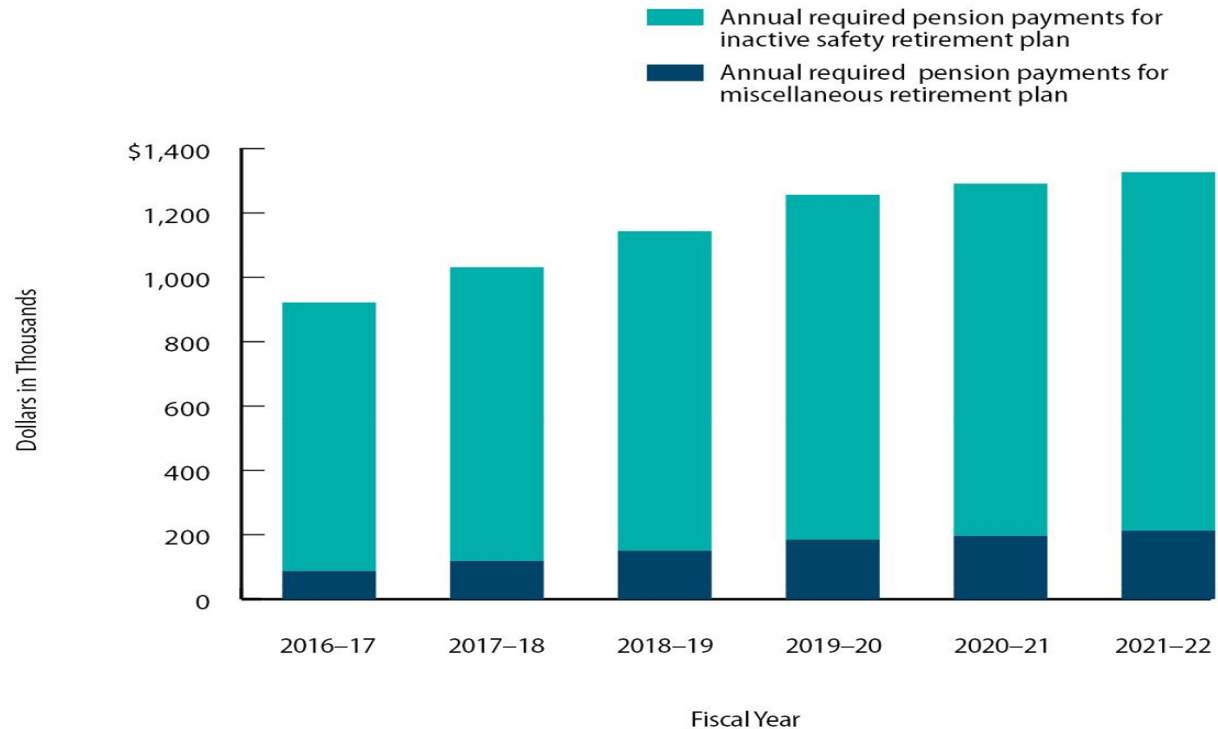
- Indicator Calculation:
  - Debt Interest and Pension Expense compared to Revenues
- Risk Measurement:
  - Ability to Pay Unavoidable Costs



# City of Maywood

**Figure 7**

**Maywood's Required CalPERS Pension Contributions Will Grow by 44 Percent Over the Next Five Years**



Source: CalPERS actuarial valuation as of June 30, 2014.

# Governmental Funds

- Indicator Calculation:
  - Cash and Short-term Investments compared to Current Liabilities
- Risk Measurement:
  - Ability to Pay short-term obligations

# Governmental Funds

- Indicator Calculation:
  - Revenue Trending
- Risk Measurement:
  - Growth/Decline in Revenues to meet potential expenses

# Governmental Funds

- Indicator Calculation:
  - Fund Balance Trending
- Risk Measurement:
  - Change in financial position

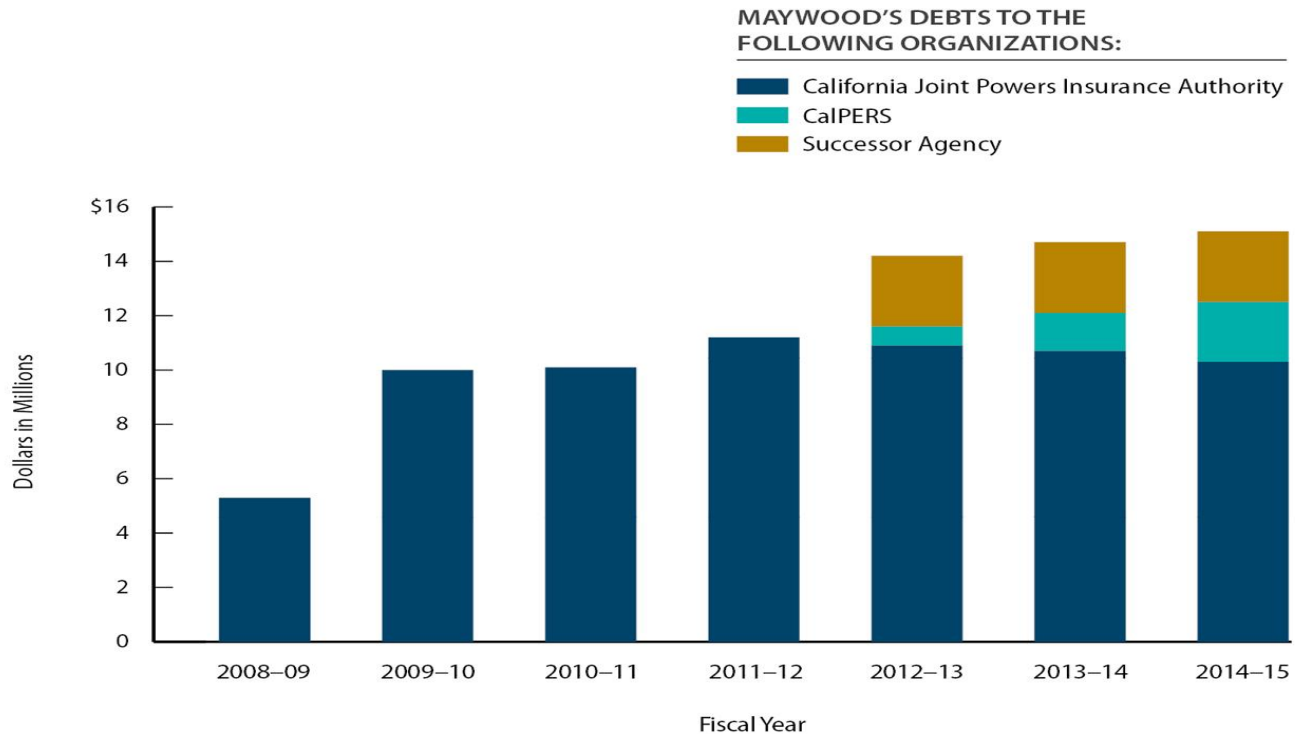


# General Fund

- Indicator Calculation:
  - Fund Balance Compared to Expenditures
- Risk Measurement:
  - Ability for General Fund to Cover Expenses

# City of Maywood

**Figure 3**  
Maywood Has Accumulated More Than \$15 Million in Overdue Debts



Source: Maywood's audited financial statements for fiscal years 2008-09 through 2014-15.

# Pensions

- Indicator Calculation:
  - Unfunded Pension Obligations
  - Pension Debt Burden
  - Funding Ratio
- Risk Measurement:
  - Ability to Pay Pension Obligations
  - Ability to Pay Bonds Issued to Finance Pensions

# City of Hemet

**Table 2**

**The City of Hemet's Unfunded Pension Liability Has Increased Substantially in Recent Years**

	FISCAL YEAR			
	2011-12	2012-13	2013-14	2014-15
Pension liability	\$208,317,838	\$215,864,604	\$222,090,425	\$242,261,374
Value of assets	160,651,471	166,940,228	153,659,468	177,071,000*
<b>Total unfunded liability</b>	<b>47,666,367</b>	<b>48,924,376</b>	<b>68,430,957</b>	<b>65,190,374†</b>

Source: Comprehensive annual financial reports for the City of Hemet (Hemet).

\* To comply with changes in accounting standards, Hemet changed how it reports this value, beginning with its fiscal year 2014-15 comprehensive annual financial report. It now reports "fiduciary net position," which equals assets minus liabilities and also takes into consideration amounts that are deferred due to other accounting rules.

† To comply with changes in accounting standards, Hemet changed how it reports this value, beginning with its fiscal year 2014-15 comprehensive annual financial report, to "net pension liability," which represents the total pension liability less the fiduciary net position.



# OPEB – Other Post Retirement Benefits

- Indicator Calculation:
  - Unfunded OPEB Obligations
  - UAAL Compared to Governmental Revenue
- Risk Measurement:
  - Extent of Unfunded OPEB Obligations
  - Ability to Pay OPEB Obligations

# City of Hemet

**Table 4**

Retiree Health Insurance Costs Steadily Increased Between Fiscal Years 2010–11 and 2014–15

	FISCAL YEAR					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16*
Retiree medical costs	\$2,362,000	\$2,839,000	\$3,113,000	\$3,186,000	\$3,330,000	\$3,191,000

Source: Comprehensive annual financial reports for the city of Hemet (Hemet), Hemet's retiree health care plan cost projections, and California State Auditor review.

\* The fiscal year 2015–16 costs represent our estimate based on Hemet's projected health care plan costs, the total retiree health plan enrollment as of June 2016, and the number of participants who accepted Hemet's \$5,000 incentive to change plans.

**But The Tests Came Back Normal...**





# City of Maywood

**Table 4**

**Maywood Did Not Always Solicit Competitive Bids When Awarding Contracts**

SERVICES PROVIDED BY CONTRACTOR	DID MAYWOOD FOLLOW AND DOCUMENT THE REQUIRED BIDDING PROCESS?			PERIOD IN WHICH MAYWOOD'S VIOLATIONS OCCURRED	AMOUNT MAYWOOD SPENT ON CONTRACT THAT VIOLATED BIDDING REQUIREMENTS
	DID THE CITY ISSUE REQUEST FOR PROPOSALS OR QUALIFICATIONS CONTAINING REQUIRED ELEMENTS?	DID THE CITY RECEIVE PROPOSALS?	DID THE CITY CONDUCT A VALID ANALYSIS TO SELECT THE TOP BIDDER?		
Law Enforcement	No	No	No	July 2010 to June 2014	\$13,242,000
Special Legal Counsel	No	No	No	September 2010 to present	998,000*
Engineering	Yes <sup>†</sup>	Yes <sup>†</sup>	No <sup>†</sup>	January 2011 to June 2016	1,091,000*
Project Management	Yes	Yes	Yes	NA	NA
Accounting	No	No	No	May 2014 to present	72,000*
Citywide Maintenance	Yes	Yes	Yes	NA	NA

Sources: California State Auditor's analysis of Maywood's individual contracts, accounting data, and other related documents.

NA = Not applicable.

\* We used a cutoff of June 2015 to quantify the amounts that Maywood spent on contracts that violated bidding requirements for special legal counsel and engineering because this was the most recent month for which audited financial statements were available. We were able to obtain copies of checks the city issued from June 2015 to present to support the full amount Maywood paid to the accounting contractor.

<sup>†</sup> Maywood issued a request for proposals (RFP) for various municipal services, including engineering, but the RFP lacked any of the details necessary to enable a contractor to submit an informed bid. Therefore, we consider Maywood's subsequent analysis of bids submitted in response to the RFP to be invalid.



# What Level Of Risk Makes Me High Risk?



# What Is The Formula?

- It depends.
- Would you want your doctor to diagnose you based on a single indicator?

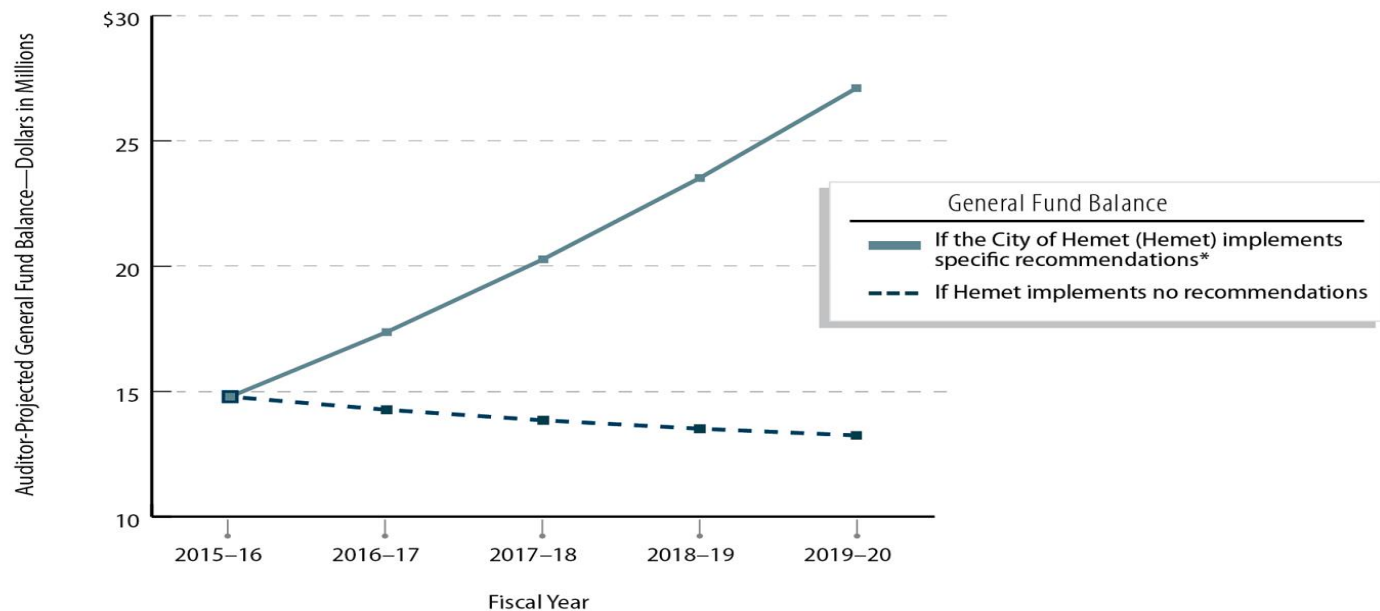
# When Am I No Longer High Risk?





# City of Hemet

**Figure 2**  
Implementation of Specific Recommendations Could Increase the City of Hemet's General Fund Balance



Sources: California State Auditor (State Auditor) analysis based on Hemet's five-year projections corrected by the State Auditor, fiscal year 2014-15 comprehensive financial report, and State Auditor review.

\* Specific recommendations addressed in our report include \$2.1 million to \$2.8 million additional revenue generated annually by charging for emergency medical services provided by its fire department (based on a 50 percent collection rate), \$835,000 additional revenue generated annually for charging for nonresident use of the city library (based on a \$50 annual fee collected from 50 percent of the patrons that would be required to pay), and \$183,000 annual savings from outsourcing maintenance of city parks (based on \$0.15 per square foot).



